

AN EVALUATION OF ACCOUNTING, ADMINISTRATIVE, AND
FISCAL INFORMATION SECURITY CONTROLS

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

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The Department of Alcohol and Drug Programs, Office of Grants Management, conducted this Evaluation of Accounting, Administrative, and Fiscal Information Security Controls to identify potential risks in the Department of Alcohol and Drug Program's (Department) accounting, administrative, and fiscal information security controls.

The Department's mission is to lead efforts to reduce alcoholism, drug addiction and problem gambling in the State by developing, administering and supporting prevention, treatment and recovery programs. The Department works in partnership with the State's county alcohol and drug program administrators and in cooperation with numerous private and public agencies, organizations and individuals. These activities are funded primarily by the State General Fund, Federal Funds, and Drug Med-Cal Regular Federal Financial Participation reimbursement.

This report is intended solely for the information and use of the Department. However, this report is a matter of public record and its distribution is not limited.

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BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

Background

Each state agency is responsible for maintaining effective systems of internal accounting and administrative program control as an integral part of its management practices. Systems of internal accounting and administrative program control are to be evaluated on an ongoing basis. An independent evaluation of the Department's systems of internal accounting and administrative program control was last conducted in 2007. The independent evaluation summarized in this report was conducted to provide an updated assessment of these controls.

Objectives and Scope

The objective of the risk and control evaluation was to assist the Department in its responsibility to maintain effective systems of internal accounting and administrative program control. The scope of the assessment was an internal review and risk assessment of critical business functions of the Department.

Methodology

The evaluation objectives included but were not limited to determinations as to whether:

- Assets are safeguarded against loss from unauthorized use or disposition
- Transactions are executed in accordance with management's authorization and recorded properly
- Financial and other operations are conducted in accordance with policies and procedures established in the *State Administrative Manual* (SAM)

The following procedures were performed during the internal accounting and administrative program control evaluation: interviews of key personnel; the completion of checklists and internal control questionnaires, which included a segregation of duties matrix; the identification of internal accounting, administrative, and fiscal information security controls, strengths and weaknesses; the review of applicable laws and regulations; the performance of transaction testing; the analysis of supporting documents, forms, and reports; and other review procedures as required.

FINDINGS AND RECOMMENDATIONS

During our evaluation of the Department's internal accounting, administrative, and fiscal information security controls, we identified a number of controls that were functioning as intended. However, we also identified areas where controls are not in place or were inadequate, and where corrective action is necessary, as described below.

Cash Disbursements

We identified the following weaknesses in the Department's internal controls over cash disbursements that could significantly increase the risk that material errors or irregularities could occur and remain undetected.

FINDING 1 Inadequate Separation of Duties over Cash Disbursement

Condition: We reviewed the separation of duties matrix completed by the Accounting Operational Manager and found that separation of duties over cash disbursements were not adequately segregated to safeguard State assets. We noted the following incompatible duties:

- Accounting officer 1 approves disbursements and also prepares checks
- Senior accounting officer prepares checks and also operates the check signing machine
- Accountant 1 authorizes or approves disbursements and also operates the check signing machine
- Senior accounting officer has access to or control of blank check stock or forms and also operates a check signing machine
- Accountant 1 authorized disbursements and also mailed or distributed the checks

Criteria: The Department has both manual and automated accounting processes. The SAM Section 8080.2- SEPARATION OF DUTIES (COMBINED SYSTEMS) states that departments whose accounting systems include manual and automated processes should use SAM Sections 8080 and 8080.1 in combination to provide adequate separation of duties.

The conditions noted are addressed by both SAM Sections 8080 and 8080.1; therefore we are using SAM, Section 8080 – SEPARATION OF DUTIES as the criteria. This section states that: “no person will perform more that one of the following seven types of duties:

- Receiving and depositing remittances

- Authorizing disbursements
- Preparing checks
- Operating a check signing machine*
- Comparing machine-signed checks with authorizations and supporting documentations (or signing checks manually after personally comparing them with authorizations and supporting documentations)*
- Reconciling bank accounts and posting the General Ledger or any subsidiary ledger affected by cash transactions*
- Initiating, or preparing invoices

(*Will not have access to or control blank check stock)"

In addition, SAM 8080 states that "checks will not be routed for mailing or distribution through the person who authorized the disbursement or prepared the check."

Recommendation: The incompatible duties identified in the condition should be segregated to ensure that adequate separation of duties are established and maintained over cash disbursements. It is understandable that the accounting units may not have enough staff to separate these duties; however employees of units other than the accounting units should be used, when necessary, to provide separation of duties.

FINDING 2 Lack of Daily Comparison between the Meter Reading on the Check Signing Machine and the Log of Checks Signed

Condition: There is a comparison being made between the meter reading on the check signing machine and the log of checks signed, but the comparison is not done on a daily bases. The Accounting Operational Manager indicated that the comparison should be made on a daily basis.

Criteria: The *State Administrative Manual* (SAM) Section 8081 states that:

The person assigned to compare signed checks to authorizations and supporting documentations will compare daily or have his secretary compare daily the meter reading on the machine with what it should be according to his log of checks reviewed and signed by machine. At least once each week he will personally make the comparison with the meter reading....

Recommendation: The comparison between the meter reading on the check signing machine and the log of checks signed should be made on a daily bases

FINDING 3 Lack of Daily Reconciliation between the Log of Checks Maintained by Check Signer and the Log Maintained by the Check Preparer

Condition: Check signers maintain a log of checks, but the log is not reconciled daily with the daily log maintained by check preparers. Full accountability of checks requires that check signers (or designee) maintains a log of checks signed and that this log is reconciled daily with the daily log maintained by check preparers.

Criteria: The *State Administrative Manual* states:

The check signer maintains a log of checks signed and reconciles it daily with the daily log maintained by the check preparer.

Recommendations: The check signer or designee maintains a log of checks signed and reconciles it daily with the daily log maintained by the check preparer.

Cash Receipts

We identified the following weaknesses in the Department's internal controls over cash or negotiable instruments that could increase the risk of misappropriation of funds.

FINDING 4 Inadequate Control Over Incoming Cash or Negotiable Instruments

Condition: Cash items should be adequately controlled upon receipt to prevent misappropriation of funds. All incoming mail receipts consisting of cash or negotiable instruments, not payable to the state agency will be prelisted. Based on the discussion with the Accounting Operational Manager, prelisting is not prepared by the person opening the mail for cash or negotiable instruments (e.g. checks, money orders) not made payable to the entity

Criteria: State Administrative Manual (SAM) Section 8020.1-PRELISTINGS states that:

"All incoming mail receipts consisting of cash and negotiable instruments, not payable to the state agency, will be prelisted by the person opening the mail to localize accountability of these assets."

Recommendations: A prelisting should be generated so that all incoming mail receipts consisting of cash or negotiable instruments not payable to the state agency will be prelisted by the person opening the mail.

Accounts Receivable

We identified the following weakness in the Department's internal controls over the collection and reconciliation of employee accounts receivable.

FINDING 5 Inadequate Collections and Reconciliation of Employee Accounts Receivable between Payroll/Personnel and Accounting

Condition: Upon review of the receivable status report, there are 51 employee accounts receivable items listed. Some of them are dated as far back as 2007 and these balances are not yet collected. These accounts receivable are listed in the General Ledger account number 1311. Upon further review there is an indication that there is no reconciliation on a regular basis between the payroll/personnel and the accounting units, and there is no active process in place on how and when to collect these overdue receivables.

Criteria: State Administrative Manual (SAM) Section 8776.7 – EMPLOYEE ACCOUNT RECEIVABLE states that:

Government Code Section 19838 requires reimbursement to the state of overpayments made to employees. Employee overpayments can arise from Office Revolving Fund (ORF) salary and travel advances and payroll warrants issued by the State Controller's Office. The employee will be given the opportunity to satisfy the amount due by payment in cash, check, or payroll deduction. Repayment may be made by installment through payroll deductions to cover at least the same number of pay periods in which the overpayment occurred. When overpayments have continued for more than one year, department may require full payment in one year.

State Administrative Manual (SAM) Section 8776.6 state that each department will develop collection procedures that will assure prompt follow-up on receivables.

Recommendations:

1. We recommend that the accounting unit and payroll/personnel jointly establish procedures to promptly clear long-outstanding employee receivables through payroll deductions or Franchise Tax Board offset.
2. We also recommend reconciliation of employee accounts receivable between payroll/personnel and the accounting units on a regular basis.

Payroll and Personnel

We identified the following weakness in the Department's internal controls over the reconciliation of timesheets:

FINDING 6 Inadequate Reconciliation of Timesheets

Condition: A number of discrepancies were found in twenty timesheets reviewed: total hours did not add up; one timesheet has the grand total hours to be 176 hours, but when the hours indicated on the timesheet were added together the total figure came out to be 64 hours. When we looked at the 42 timesheets tested, seven of them did not have PCA code and in addition two of the timesheets did not have the supervisor's signature on them.

Criteria: State Administrative Manual (SAM) Sections 8539, 8540, and 8580.2 state that:

Agencies will maintain complete records of attendance and absences for each employee during each pay period and verify that payroll is correct by comparing employee timesheets/attendance and other personnel documents supporting payroll to the payroll warrants register.

Recommendations: Supervisors should review timesheets for accuracy before they sign them. The Department has adopted electronic timesheets, which will help to mitigate these discrepancies. Nevertheless, the Supervisor continues to be responsible for reviewing the timesheet for accuracy and then signing it.

Fixed Assets

Our review identified the following weakness in the Department's internal controls over the capitalization of fixed assets.

FINDING 7 Inadequate Written Procedures for Capitalization of Fixed Assets

Condition: It appears there are no written procedures in place for capitalizing fixed assets purchased over \$5,000.

Criteria: State Administrative Manual (SAM) Section 8602 states that:

Agencies will verify that fixed asset acquisitions are capitalized in accordance with SAM 8602.

Recommendations: The Business Services Section should develop written procedures and adopt SAM 8602 for capitalizing fixed assets and depreciation.